

Message Text

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SUBJECT: GOF APPROVES PLAN FOR TELEPHONE MODERNIZATION

REF: (A) PARIS 12951, (B) PARIS 10277

1. SUMMARY. ON MAY 13 PRESIDENT GISCARD D'ESTAING PUT STAMP OF APPROVAL ON AMBITIOUS PROGRAM TO MODERNIZE FRENCH TELEPHONE SYSTEM. IMPORTANT ELEMENT OF DECISION WAS SELECTION OF ITT (METACONTA) AND ERICSSON (AXE) SYSTEMS AND EXCLUSION OF JAPANESE SYSTEM. END SUMMARY.

2. AT MAY 13 RESTRICTED MINISTERIAL MEETING DEVOTED TO DISCUSSION OF TELECOMMUNICATIONS INDUSTRIAL POLICY, GOF APPROVED OUTLINE OF VAST DOMESTIC TELECOMMUNICATIONS PROGRAM WHICH INCLUDES, INTER ALIA:

A. EXPENDITURE DURING 7TH PLAN (1976-80) OF APPROXIMATELY \$30 BILLION TO MODERNIZE FRENCH TELEPHONE SYSTEM, OF WHICH \$10 BILLION FOR EQUIPMENT PURCHASES.

B. TARGET OF 20 MILLION TELEPHONE LINES IN FRANCE BY 1982 VERSUS PRESENT 7 MILLION.

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C. DEVELOPMENT OF DOMESTIC TELECOMMUNICATIONS

INDUSTRY CAPABLE OF COMPETING EFFECTIVELY IN INTERNATIONAL MARKET.

D. CHOICE OF ITT'S METACONTA PROCESS AND ERICSSON'S AXE PROCESS AS MEDIUM-TERM TECHNOLOGY FOR MODERNIZATION PROGRAM (DEPARTMENT WILL RECALL THAT ONE OF ITT'S FRENCH SUBSIDIARIES, LMT, AND ERICSSON SUBSIDIARY ERICSSON FRANCE, ARE TO BE INVOLUNTARILY "ABSORBED" BY THOMSON CSF).

E. AGREEMENT PROVIDING FOR ESTABLISHMENT BY THOMSON AND COMPAGNIE GENERALE D'ELECTRICITE (CGE) OF JOINTLY-OWNED SUBSIDIARY FOR INTERNATIONAL MARKETING.

3. TECHNICAL NOTE. PRESENT FRENCH TELEPHONE SYSTEM IS ELECTRO-MECHANICAL. WHILE AWAITING DEVELOPMENT BY CGE OF TOTALLY ELECTRONIC TELEPHONE SYSTEM (EXPECTED INTRODUCTION IN 1981), GOVERNMENT HAS OPTED FOR USE DURING MEDIUM-TERM OF SEMI-ELECTRONIC EQUIPMENT, I.E. METACONTA AND AXE SYSTEMS. SINCE NO FRENCH COMPANY HAD DEVELOPED SEMI-ELECTRONIC TELEPHONE SYSTEM, GOF, TO ASSURE THAT FRENCH-CONTROLLED TELEPHONE INDUSTRY WOULD PROVIDE NEEDED EQUIPMENT AND COULD OFFER "FULL LINE" OF SOPHISTICATED TELECOMMUNICATIONS EQUIPMENT TO FOREIGN CUSTOMERS, IMPOSED TAKEOVER BY THOMSON OF FRENCH-BASED FOREIGN COMPANIES PRODUCING SEMI-ELECTRONIC EQUIPMENT. (SEE REFTELS FOR BACKGROUND.)

4. COMMENT. GOF DECISION PUTS CAPSTONE ON SEVERAL YEARS EFFORT TO RATIONALIZE AND "FRENCHIFY" DOMESTIC TELECOMMUNICATIONS INDUSTRY, TO PROVIDE INDUSTRIAL BASE FOR EFFECTIVE COMPETITION BY FRENCH FIRMS IN FOREIGN MARKETS, AND LAST, BUT NOT LEAST, TO GIVE FRENCH PUBLIC A TELEPHONE SYSTEM THAT WORKS. THOMSON CSF IS NOW TOUTED AS EQUAL OF CGT IN TELECOMMUNICATIONS AND TWO GIANTS WILL BE FOCAL POINT OF GOF ENDEAVORS TO PUSH FRANCE INTO FOREFRONT OF THIS KEY HIGH TECHNOLOGY AREA. PRECISE PTT MARKET SHARES IN 1976-1982 OF THOMSON, CGE, CGCT (REMAINING ITT TELECOMMUNICATIONS SUBSIDIARY) AND AOIP (ASSOCIATION OF UNCLASSIFIED

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PRECISION INSTRUMENT WORKERS) HAVE YET TO BE ESTABLISHED BUT PROTECTION, AND PERHAPS IMPROVEMENT, OF CGCT POSITION IS UNDERSTOOD TO BE PART OF LMT TAKEOVER DEAL. EMBASSY WILL PROVIDE FULL AVAILABLE DETAILS BY AIRGRAM.
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